

Budget and Resources

The Administrative Services Division provides staff support for information technology, personnel management, record and mail services, word processing, and all fiscal operations, including development and administration of the agency's budget. The Department is funded from three sources.

More than 96% of our appropriation comes from the Insurance Financial Regulation Fund and the Insurance Producer Administration Fund which are funded by various taxes and fees collected from insurance companies and producers. The balance of our appropriation comes from the General Revenue Fund (GRF). In addition, our Senior Health Insurance Program (SHIP) receives funding from a federal grant.

For FY 2001, the Department's appropriation was \$30.5 million. Of that total, \$478,600 was allocated from the GRF, while federal funds for SHIP contributed \$700,000. Revenue collections for the year totaled \$294,044,204 of which \$267,018,526 was deposited into the General Revenue Fund.

As of June 30, 2001, the Department had \$14,544,440 in net accounts receivable on the books from 1,862 accounts. Of those, \$5,414,320 was from privilege tax litigation cases involving the 1997 Supreme Court decision that the tax was unconstitutional. Another \$7,139,000 came from annual financial regulation fee billings under 19 days old. Thus a total of \$1,991,120 more accurately reflects the Department's accounts receivable.

The Department sends a past due letter on accounts receivable over 30 days. After 60 days, the originator of the accounts receivable is requested to assist in the collection. After 75 days, a request is made to initiate regulatory action against the insurance company or individual licensee. If an account is outstanding after 90 days, the account is submitted to the Comptroller's Offset System. After 180 days, the account is reported to the Debt Collection Board and submitted to a collection agency.

Department Staff

Administrative	43
Consumer	132
Financial/Corporate	138
Pension	12
Staff	31
EDP	<u>23</u>
	379

Securities Deposited by Insurance Companies for FY 2001

Domestic Stock Life	79	\$218,138,000.00
(Special Policy Fund)	3	970,000.00
Domestic Mutual Life	6	11,600,000.00
Domestic Assessment Life	2	430,000.00
Domestic Stock Property & Casualty	175	387,450,000.00
Domestic Mutual Property & Casualty	15	37,942,000.00
Domestic Inter-Insurance Exchange	4	7,400,000.00
Inex Insurance Exchange	1	2,505,000.00
Burials	2	16,000.00
Bond Certificates	26	1,159,000.00
Health Maintenance Organizations	27	10,181,000.00
Limited Health Service Organizations	9	842,000.00
Total:	349	678,633,000.00
Foreign Workers Compensation	46	490,173,000.00
Foreign & Alien	21	37,385,000.00
Service Contract Providers	9	244,000.00
Mutual Trust Holding	2	3,050,000.00
Total on Deposit June 30, 2001	427	\$1,209,485,000.00

Comparative Statement of Taxes & Fees Collected Period Ending June 30, 2001

Taxes & Fees	FY 2001	FY 2000
1st Quarter Privilege Tax	\$26,329,507.41	\$23,961,529.12
2nd Quarter Privilege Tax	27,398,909.81	25,728,896.12
3rd Quarter Privilege Tax	26,703,511.82	18,949,546.78
4th Quarter Privilege Tax	26,828,306.44	21,554,927.65
1st Quarter Retaliatory Tax	22,280,108.42	16,492,708.70
2nd Quarter Retaliatory Tax	22,994,967.05	17,309,948.59
3rd Quarter Retaliatory Tax	19,798,613.45	15,581,720.24
4th Quarter Retaliatory Tax	19,494,353.52	16,065,747.83
Final Privilege Tax	33,084,492.62	36,659,790.26
Final Retaliatory Tax	21,624,092.21	13,279,263.80
Surplus Line Tax	6,910,507.96	6,010,736.58
Group Privilege Tax	0.00	6.66
Fines & Penalties	1,069,376.59	1,071,210.13
Interest	229,225.42	140,887.90
Miscellaneous	<u>4,625.76</u>	<u>4,218.16</u>
Subtotal for General Revenue Fund	\$254,750,598.48	\$212,811,138.52
Producer Licenses	12,464,421.09	11,361,423.00
Producer Reinstatement Fee	362,285.00	451,790.00
Producer Appointment Fee	544,025.00	456,935.00
Producer Provider Education	273,430.00	260,465.00
Producer Market Conduct Exams	513,776.25	548,288.75
Producer Fines & Penalty	0.00	30.00
Producer Market Conduct Travel	76,487.86	149,498.51
Producer Miscellaneous	<u>39,676.99</u>	<u>25,782.33</u>
Subtotal for Insurance Producer Fund	\$14,274,102.19	\$13,254,212.59
Fire Marshal Tax (Company)	11,968,129.58	11,485,009.82
Fire Marshal Tax (Surplus Lines)	<u>300,797.00</u>	<u>288,330.65</u>
Subtotal for Fire Prevention Fund	\$12,268,926.58	\$11,773,340.47
L/A&H:		
Annual Statement Filing	74,275.00	74,675.00
Corporate Documents	74,451.00	100,225.00
Certificate Fees	124,260.00	131,055.00
Policy Form Filings	272,050.00	298,750.00
Miscellaneous	24,781.00	26,829.58
Domestic Financial Regulation Fee	1,555,700.00	1,628,400.00
Foreign Financial Regulation Fee	2,581,200.00	2,524,600.00
P&C:		
Cost Containment	0.00	2,500,100.00
Annual Statement Filing	106,275.00	106,262.65
Surplus Lines Licenses	98,200.00	96,800.00
Corporate Documents	207,120.00	207,460.00
Certificate Fees	203,879.00	210,050.06
Policy Form Filings	571,624.76	743,048.00
Fines & Penalties	0.00	200.00
RCPT, etc	76,237.50	104,628.75
Miscellaneous	16,491.06	45,019.83
Domestic Financial Regulation Fee	2,527,900.00	2,162,800.00
Foreign Financial Regulation Fee	3,361,900.00	2,665,300.00
Financial Exam Travel	<u>350,121.73</u>	<u>343,320.68</u>
Subtotal for Insurance Financial Regulation Fund	\$12,226,466.05	\$13,969,524.55
Public Pension Fees	<u>524,110.52</u>	<u>489,554.11</u>
Subtotal for Public Pension Fund	\$524,110.52	\$489,554.11
Total for All Funds	<u>\$294,044,203.82</u>	<u>\$252,297,770.24</u>

FY 01 Appropriations and Disbursements—July 1, 2000—June 30, 2001

General Revenue Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$341,200.00	\$0.00	\$322,262.93	\$18,937.07
Retirement—Employee	13,700.00	0.00	12,881.38	818.62
Retirement	34,800.00	0.00	32,058.58	2,741.42
Social Security	26,100.00	0.00	23,908.83	2,191.17
Travel	34,200.00	0.00	20,912.86	13,287.14
Printing	10,500.00	0.00	10,500.00	0.00
Equipment	10,000.00	5,000.00	0.00	5,000.00
Telecommunications	<u>8,100.00</u>	<u>0.00</u>	<u>6,606.15</u>	<u>1,493.85</u>
Total	<u>\$478,600.00</u>	<u>\$5,000.00</u>	<u>\$429,130.73</u>	<u>\$44,469.27</u>

Public Pension Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$299,600.00	\$0.00	\$296,448.22	\$3,151.78
Retirement—Employee	12,000.00	0.00	11,546.53	453.47
Retirement	30,600.00	0.00	29,480.59	1,119.41
Social Security	22,900.00	0.00	22,031.93	868.07
Group Insurance	59,200.00	0.00	53,071.51	6,128.49
Contractual	20,000.00	0.00	2,200.00	17,800.00
Travel	19,000.00	0.00	11,373.86	7,626.14
Equipment	10,000.00	0.00	1,680.19	8,319.81
Telecommunications	<u>1,000.00</u>	<u>0.00</u>	<u>696.21</u>	<u>303.79</u>
Total	<u>\$474,300.00</u>	<u>\$0.00</u>	<u>\$428,529.04</u>	<u>\$45,770.96</u>

FY 01 Appropriations and Disbursements—July 1, 2000—June 30, 2001

Insurance Producers Administration Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$6,987,300.00	\$0.00	\$6,713,594.71	\$273,705.29
Retirement—Employee	279,400.00	0.00	261,374.41	18,025.59
Retirement	712,700.00	0.00	667,717.40	44,982.60
Social Security	534,500.00	0.00	491,324.22	43,175.78
Group Insurance	1,309,800.00	0.00	1,128,695.03	181,104.97
Contractual	1,623,200.00	0.00	1,513,650.74	109,549.26
Travel	380,800.00	0.00	333,814.86	46,985.14
Commodities	56,000.00	0.00	54,117.39	1,882.61
Printing	116,300.00	0.00	99,214.98	17,085.02
Equipment	279,300.00	0.00	239,582.45	39,717.55
Telecommunications	212,300.00	0.00	167,575.06	44,724.94
Automotive Equipment	14,600.00	0.00	13,656.02	943.98
Lump Sum	323,500.00	0.00	0.00	323,500.00
Refund	<u>191,000.00</u>	<u>0.00</u>	<u>90,810.00</u>	<u>190.00</u>
Total	<u>\$12,920,700.00</u>	<u>\$0.00</u>	<u>\$11,775,127.27</u>	<u>\$1,145,572.73</u>

Insurance Financial Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$9,730,000.00	\$0.00	\$8,973,652.49	\$756,347.51
Retirement—Employee	390,100.00	0.00	344,469.41	45,630.59
Retirement	992,400.00	0.00	892,684.00	99,716.00
Social Security	744,300.00	0.00	650,856.55	93,443.45
Group Insurance	1,635,400.00	0.00	1,343,897.34	291,502.66
Contractual	1,987,100.00	0.00	1,716,789.66	270,310.34
Travel	725,000.00	0.00	688,224.95	36,775.05
Commodities	68,000.00	0.00	64,588.31	3,411.69
Printing	50,000.00	0.00	20,647.93	29,352.07
Equipment	265,100.00	0.00	176,782.62	88,317.38
Telecommunications	166,500.00	0.00	125,082.14	41,417.86
Automotive Equipment	7,100.00	0.00	6,807.79	292.21
Refund	<u>100,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>100,000.00</u>
Total	<u>\$16,861,000.00</u>	<u>\$0.00</u>	<u>\$15,004,483.19</u>	<u>\$1,856,516.81</u>

FY 01 Appropriations and Disbursements—July 1, 2000—June 30, 2001

Combined Funds

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$17,358,100.00	\$0.00	\$16,305,958.35	\$1,052,141.65
Retirement—Employee	695,200.00	0.00	630,271.73	64,928.27
Retirement	1,770,500.00	0.00	1,621,940.57	148,559.43
Social Security	1,327,800.00	0.00	1,188,121.53	139,678.47
Group Insurance	3,004,400.00	0.00	2,525,663.88	478,736.12
Contractual	3,630,300.00	0.00	3,232,640.40	397,659.60
Travel	1,159,000.00	0.00	1,054,326.53	104,673.47
Commodities	124,000.00	0.00	118,705.70	5,294.30
Printing	176,800.00	0.00	130,362.91	46,437.09
Equipment	564,400.00	5,000.00	418,045.26	141,354.74
Telecommunications	387,900.00	0.00	299,959.56	87,940.44
Automotive Equipment	21,700.00	0.00	20,463.81	1,236.19
Lump Sum	323,500.00	0.00	0.00	323,500.00
Refund	<u>191,000.00</u>	<u>0.00</u>	<u>90,810.00</u>	<u>100,190.00</u>
Total	<u>\$30,734,600.00</u>	<u>\$5,000.00</u>	<u>\$27,637,270.23</u>	<u>\$3,092,329.77</u>

Tax Refund Fund

(established for the deposit and expenditure of funds needed to pay tax refunds due)

Standard Accounts:	Appropriations	Disbursements
Refund	<u>\$12,500,000.00</u>	<u>\$5,174,928.88</u>
Total	<u>\$12,500,000.00</u>	<u>\$5,174,928.88</u>

Senior Health Insurance Plan

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$700,000.00</u>	<u>\$412,836.53</u>
Total	<u>\$700,000.00</u>	<u>\$412,836.53</u>

Department of Insurance Federal Trust Fund

(Federal grant to address access to health insurance)

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$1,200,000.00</u>	<u>\$611,740.53</u>
Total	<u>\$1,200,000.00</u>	<u>\$611,740.53</u>

Group Workers' Compensation Pool Insolvency Fund

(Expenses related to claims of insolvent workers' compensation self—insurance pools)

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$2,000,000.00</u>	<u>\$161,889.68</u>
Total	<u>\$2,000,000.00</u>	<u>\$161,889.68</u>

Consumer Market Division

The Consumer Market Division oversees the Department's consumer protection and education programs, licenses and regulates the activities of insurance producers, and monitors the marketplace operations of insurance companies through policy analysis, complaint investigation and periodic on-site examinations.

Consumer Services and Education Programs

During 2001, the **Consumer Services Section** made significant technological strides in the way it communicates with consumers and insurers. One example of this streamlining is our **electronic complaint project** pilot program, in which consumer complaints received via e-mail are electronically transmitted to participating insurers, thereby decreasing paperwork and turnaround time to process complaints. At the end of 2001, 97 companies were participating in this project. Staff members estimate that electronic submissions speed up the complaint handling process by at least five days.

The Section continues to utilize the electronic group mailbox, which encourages companies to respond to their complaints via e-mail. We are currently working with numerous companies to protect confidential consumer complaint information transmitted via e-mail by utilizing encryption software. We hope to persuade more companies to join us in using encryption in the near future. In compliance with Governor Ryan's Executive Order that calls for state agencies to assess the environmental impact of their operations and to take action to conserve resources, we are launching a project that will reduce the amount of paper used by our Department. With this process, those complaints received on paper are scanned and then transmitted via e-mail to the company, thereby reducing turnaround time and paper usage.

Through the Department's website, consumers can easily communicate their complaints to us, or quickly locate a multitude of information to assist them in better understanding insurance. At the click of a button consumers can now access 45 **consumer fact sheets**, 32 of which were either created or revised in 2001. These fact sheets educate consumers on a wide range of issues specific to auto, health, homeowners and life insurance, as well as number of general insurance topics. We now operate a toll free consumer assistance hotline, enabling consumers to easily reach our analysts with questions or complaints about their insurance companies.

In cooperation with the Illinois Comprehensive Health Insurance Plan (CHIP), the Illinois Department of Public Aid, and the federal Department of Labor, Section staff provided information and counseling at numerous **health care fairs** for steel mill employees and retirees who were losing their health care coverage. Senior Health Insurance Program counselors also fielded numerous phone calls from those who could not personally attend the presentations.

Illinois residents are becoming increasingly concerned about their ability to afford health care coverage, whether through COBRA, individual plans in the voluntary market, or CHIP. We are closely monitoring several Congressional proposals aimed at assisting the consumer in purchasing health insurance. In addition, many employers are also considering changing their group health insurance plans from defined benefit to defined contribution, making health care costs more predictable and perhaps less costly.

During 2001, our **Office of Consumer Health Insurance** (OCHI) staff received 14,272 calls from 1,102 different zip codes in Illinois. The three most frequently addressed topics were: claims (2,469), group insurance (1,100), and COBRA continuation (983). OCHI printed a Spanish version of its informational brochure about the office, and distributed it to callers as well as to hospitals in areas with highly concentrated Spanish populations.

Beginning January 1, 2002, OCHI's responsibilities will also include implementation of the **Uninsured Ombudsman Program** created by Senate Bill 1505 (PA 92-0331). The legislation authorizes OCHI to provide assistance and education to uninsured individuals regarding health insurance benefits, options and rights under state and federal law.

The Department continues to monitor activity on privacy issues at the NAIC and from the federal government with respect to an individual's medical and credit information. The Department will take appropriate action at the state level to ensure compliance with all privacy requirements.

The **Utilization Review Unit** continues to process applications for the registration of utilization review organizations. During 2001, staff members registered 50 organizations, bringing the total number registered with the Department to 152.

Senate Bill 879 (PA 92-0233) enhances the state's efforts to stem organized **insurance fraud** through a whistleblower provision and expanded fraud reporting requirements extended to all lines of insurance, as well as to insurance application and premium fraud. The Department will promulgate administrative rules to define the type of information to be reported, the framework for collecting and compiling such information, and procedures for turning information over to the proper law enforcement agency or prosecutor. The new law, which becomes effective January 1, 2002, implements recommendations made by the Insurance Fraud Task Force statutorily created to investigate the issue of organized insurance fraud and methods to combat it.

Consumer Complaints

By Reason

	Insurance Companies	HMO's
Underwriting	1,819	23
Marketing and Sales	261	0
Claim Handling	8,659	1,405
Policyholder Service	1,258	13
Not Categorized	268	
Subtotal	12,265	1,441
Total Complaints:	13,706	

By Line of Coverage

Auto	3,888
Group A&H	3,964
Individual A&H	1,340
Homeowners	1,257
Individual Life	950
Individual Annuity	142
Group Credit A&H	75
HMOs	1,441
All Other Coverage	<u>381</u>
Subtotal	13,438
Not Categorized	<u>268</u>
Total	<u>13,706</u>

Consumer Outreach

High School Presentations:	229
Senior Center Presentations:	249
Radio Shows:	179
(estimated audience of 2,145,000)	
Other Presentations:	16

Market Conduct Programs

In establishing a schedule of examinations, the **Market Conduct Section** evaluates information gleaned from insurer market conduct annual statements regarding automobile claims, homeowners coverages, and zip code tracking of company producers by business address. An analysis of these claim statements in conjunction with our review of consumer complaints, enables us to prioritize personal lines carriers for targeted examinations and to respond more quickly to the ever-changing marketplace.

Market conduct examinations directed at health maintenance organizations (HMOs) emphasized both their compliance with rules and regulations, and accurate and timely payments to their members. Market conduct examiners also paid special attention to industry compliance with PA 92-0139, which became effective July 24, 2001. This legislation amended the Insurance Code to increase from 6 to 9 percent the amount of **annual interest due** when an insurer does not pay death or disability benefits in a timely manner after receiving a proof of loss. Interest accrues on the total amount payable or face amount of the policy.

Market Conduct staff were active on various NAIC working groups designed to address **uniformity in market conduct examinations** with respect to data calls, examiner qualifications and examination procedures. The effort is being driven by the federal Gramm-Leach-Bliley Act. Staff members participated in **multi-state examinations** covering race-based life insurance rates, utilization and review procedures in automobile insurance, and a pilot zone exam in cooperation with three other states. Market Conduct staff also participated in the Inter Agency of Banking, Insurance, and Securities Regulators, an entity organized under the auspices of GLBA to develop and implement uniform regulatory methods and procedures across the banking, insurance, and securities industries.

Company compliance with Illinois insurance statutes and regulations, as well as with the insurers' own internal procedures improved in 2001, as reflected in decreases both in the number of corrective orders issued and civil forfeitures levied.

Completed Market Conduct Examinations

Examinations	27
Corrective orders issued	18
Premium overcharges returned to Illinois policyholders	\$ 1,791
Additional claim payments made	\$ 56,851
Civil forfeitures levied (13 insurers)	\$250,000

Policy Filing Issues

After the September 11, 2001, terrorist attacks on America, the insurance industry began to exclude terrorism losses from insurance policies. The Department of Insurance worked with other regulators and the industry to adopt a compromise solution to commercial lines **terrorism exclusion** language and issued a bulletin advising companies when exclusions would be accepted and the language that companies must use as a minimum standard for their terrorism exclusions.

In April 2001, the Department conducted a survey of all personal lines auto and homeowners companies to see if and how they use credit **information** for underwriting and/or rating insurance policies. We are carefully examining all responses to the survey to determine whether further information or discussion with the industry or specific companies is warranted to ensure that companies are complying with current Illinois insurance laws and regulations. In addition, we will continue to monitor the use of credit information by Illinois personal lines carriers through market conduct examinations and complaint investigations.

To assist Illinois consumers in becoming better informed about credit issues, we have also developed and posted on our website a fact sheet entitled "Understanding How Insurers Use Credit Information." We will continue to work with elected policymakers as they assess the adequacy of existing laws in today's changing marketplace. For example, House Bill 2419 (PA 92-0480) which became effective October 1, 2001, prohibits auto and homeowners insurance companies from refusing to issue a new policy or from nonrenewing an existing policy solely due to a credit report.

During the year, the Illinois Department of Insurance undertook several initiatives aimed at **moving** accepted insurance **products to market** as quickly as possible. First, we created filing requirement checklists for companies to ensure that their filings comply with Illinois insurance laws, regulations and requirements when they are submitted the first time. Second, we implemented the System for Electronic Rate and Form Filing (SERFF) to allow companies to submit their filings, and staff to review those filings electronically.

On the life insurance side, the Illinois Department of Insurance has been instrumental in addressing the issue of **unpaid death claims on multiple policies** held by the same individual, but under different names. An NAIC Working Group chaired by Illinois is developing a model regulation to require insurers to establish record keeping practices that will enable them to match a deceased policyholder to all policies held. The Department is also in the process of promulgating its own rule.

Another Department initiative, Senate Bill 869 (PA 92-0399), was enacted in August of 2001 to **prohibit discrimination** on the basis of race, religion, color, or national origin in the conduct of **life and health insurance** business—protections that have been afforded to Illinois citizens who buy property and casualty insurance policies since 1959. The law gives the Department added regulatory leverage in investigating allegations of racial discrimination in the pricing of small face value life insurance policies.

Product Filings

L/AH forms approved	19,530
L/AH informational forms	1,821
L/AH rate filings	692
Advertising for Variable Life & Annuity filings	444
HMO forms approved	1,764
HMO information forms	145
PPA applications approved/renewed	114
PC form filings reviewed	39,782
PC rate filings reviewed	4,305

Producer Licensing and Regulation

The Producer **Licensing Unit** develops and administers the licensing examinations required of prospective insurance producers and public adjusters. The examinations are given by computer and electronically graded immediately upon completion through a test administrator at established test sites throughout Illinois. Candidates who pass the examination receive an instant application at the test site. In addition, the licensing staff reviews and issues new and renewal applications on a daily basis. The Licensing Unit also has a program that allows education providers to submit their rosters of students who completed courses to the Department via the Internet. Currently, 71 percent of the education providers are utilizing this service and have been able to more quickly submit completed courses to the Department, saving everyone involved both time and money.

During 2001, the Licensing Unit moved forward in its efforts to comply with the federal Gramm-Leach-Bliley Act (GLBA). GLBA requires a minimum of 29 states to enact, by November 2002, either **uniform agent licensing laws and regulations** or reciprocity laws and regulations governing the licensure of non-resident agents or face national licensing standards established by a newly created National Association of Registered Agents and Brokers (NARAB). Legislation initiated by the Licensing Unit to comply with this federal requirement was signed into law on August 16, 2001. Immediately thereafter, all procedures, forms and processing programs were successfully changed to bring our Department into compliance with the reciprocity and uniformity requirements imposed by the GLBA.

Licenses Issued

Producers Licensed	126,796
Business Entities Licensed	10,848
Examinations	20,836
Temporary Licenses	1,105
Limited Representatives	6,395
Premium Finance Licenses	143
Public Adjuster Licenses	128
Third Party Administrators	224
Certifications/clearances	64,940
Education providers	370
Courses approved	5,143

The Producer **Regulatory Unit** conducts fiduciary financial examinations of licensed insurance producers and investigates their marketing activities and methods. Such examinations or investigations may result in the issuance of a Director's Order to the producer.

Regulatory Actions

Financial examinations	155	Results:	
Investigations	284	Revocations/surrenders	52
Total	439	Stipulation & Consent orders	29
		Civil forfeitures	\$107,250

Senior Health Insurance Program

The Senior Health Insurance Program (SHIP) is a free counseling program for Medicare beneficiaries, and their caregivers, who have questions or problems with health insurance issues such as Medicare, Medicare supplement insurance, Medicare health plans and long term care insurance.

During 2001, SHIP staff and counselors held 38 educational meetings statewide to assist thousands of Medicare beneficiaries affected by the **Medicare HMO withdrawals** in Illinois. SHIP staff also counseled beneficiaries about their insurance options as large groups of physicians withdrew from Medicare HMO's. Many employers, including some Illinois steel companies that have closed their doors, announced they are dropping their retirees' secondary insurance coverage. SHIP advocated for those retirees by setting up booths at health fairs with other state agencies throughout Illinois.

SHIP continued to provide a strong presence in the Hispanic community by counseling and educating the Hispanic population in Cook County on all aspects of Medicare and health insurance. A bilingual operator was also hired to assist Hispanic callers on the SHIP 800-line.

Emerging issues impacting Medicare consumers include the new **“lock-in” provision** affecting beneficiaries, prescription drug coverage, long term care insurance, and ongoing changes to the Medicare program. The “lock-in” provision gives beneficiaries only two election periods to join a Medicare Health Plan in 2002. The first election period will begin on January 1, 2002, and end on June 30, 2002; the second election period will be during the month of November 2002.

SHIP continues to provide a Prescription Drug Information Guide as a resource to beneficiaries who need information on purchasing low cost or no cost prescription drugs, and will partner with the Illinois Department of Public Aid in 2002 to educate the public on the new **SeniorCare Program**, a prescription drug program for seniors over age 65, beginning June 1, 2002.

SHIP Activities

Volunteer hours	16,000
One-on-one counseling sessions	18,500
Educational presentations	375
People reached through community, educational and media presentations	650,000
800 line calls per month	2,500
Savings to Medicare beneficiaries	\$1,252,000

Financial–Corporate Regulatory Division

The Financial–Corporate Regulatory Division is responsible for analyzing and monitoring the financial condition of insurance companies, health maintenance organizations, and all other regulated insurance risk bearing entities, conducting on-site financial examinations, and intervening when developing problems are identified. The Division licenses authorized insurers in the state, and investigates and takes action against unauthorized companies illegally conducting the business of insurance.

The Division is intricately involved in oversight of the management operations of Illinois insurers because by law many corporate transactions, such as entering reinsurance agreements, paying dividends, and transacting business with affiliates, require the prior approval of the Department.

Financial Analysis

The tragedies of **September 11**, 2001, were the catalyst for a flurry of activity in this Division. Illinois joined other states in surveying major insurance companies to assess the **financial impact** of the disasters on their domestic industries. Initial loss estimates, although high, were not for the most part, large enough to cause irreparable financial harm to Illinois companies. This process was a good example of the 50 states coordinating efforts through their association, the NAIC, to quickly pull together massive amounts of data on a nationwide basis in the face of a potential insurance crisis.

Legislatively, three initiatives in 2001 were important to this Division. PA 92-0124 is a new article creating **special purpose reinsurance vehicles**, which will facilitate the securitization of insurance risk under Department oversight, provide a new source of capital to the insurance marketplace, and make insurance risk securitization more widely available on reasonable terms. PA 92-0075 amends various Insurance Code sections to provide standards for the **release of insurance company security deposits** for companies that are voluntarily dissolving or ceasing to engage in the insurance business. PA 92-0140 amends various Insurance Code sections to strengthen Illinois' **corporate governance** of insurance companies and health maintenance organizations by establishing: additional standards for the boards of directors of insurers and HMOs operating in Illinois; additional standards for transactions between affiliated companies; new standards for transactions between HMOs and their officers and directors; and additional authority in receiverships of affiliated companies when their operations are commingled with the domestic insurer.

On January 1, the new comprehensive **NAIC Insurance Accounting Practices and Procedures** standards became effective. Beginning with their first quarter 2001 financial statements, Illinois domestic insurers were asked to explain any financial adjustments that resulted from adoption of the new accounting guide. Our financial analysts then reviewed those adjustments against the accounting manual for compliance, requested additional information where needed, and in some cases, required companies to make further adjustments. The Financial Regulation Section also looks to the 2001 financial audits by independent auditors for further verification that the accounting principles have been accurately and appropriately applied.

In addition, the Department formed a Statutory Accounting Issues Committee to consider requests from companies for interpretations and decisions on accounting guidance. This committee prepares formal decisions on questions posed to it and maintains a permanent record of such decisions for future reference.

Also on January 1, the NAIC adopted the **Health Blank** for annual and quarterly financial statements filed by health maintenance organizations, limited health services organizations, and hospital medical dental indemnity corporations. This action allows those organizations to file their annual and quarterly statements on a common reporting form. The Health Blank must be used for filings beginning in 2001. Working with the Health Blank, through an NAIC working group, Financial Regulation staff assisted in the development of a series of financial measures to be used in the financial analysis of those entities. To further improve the quality and timeliness of the financial review, Illinois requires each of those groups to file financial information electronically with the NAIC on both a quarterly and annual basis.

As a result of the adoption of Article V $\frac{3}{4}$ of the Illinois Insurance Code, **group workers compensation insurance pools** became subject to expanded regulatory oversight from the Department of Insurance. Each pool currently operating in Illinois is monitored for statutory compliance and subject to expanded financial reporting requirements. Our review of the financial performance of the individual pools determined that several pools were insolvent. As such, they were directed to assess their membership for amounts necessary to correct the financial condition. The Section continues to work closely with pool management and administrators for the benefit of Illinois pool participants.

Throughout the year this Section continued to analyze and strengthen its financial analysis procedures. In preparation for the **NAIC accreditation review**, scheduled for 2003, each analysis unit matched its review procedures with those required by the NAIC Analysts' Handbook and made a concentrated effort to improve the financial review process and raise our accreditation scores.

Actuarial Analysis

The **Casualty Actuarial Section** contributes to the Department's overall responsibility of maintaining a solvent insurance industry by monitoring the adequacy of loss reserves carried by property and casualty insurance companies. To fully monitor those reserves, staff actuaries review actuarial opinions, perform loss reserve analyses on annual statement loss data, review work papers supporting the actuarial opinions and participate in on-site financial examinations of insurance companies.

In 2001 this Section continued to expand its participation in on-site financial examinations which entail an intensive analysis of the loss and expense reserves using not only loss data but also interviews with company personnel and financial examiners. One of the many benefits of the Casualty Actuarial Section's involvement in the financial examinations has been an increase in communication between the Chicago office and the Springfield office.

In addition to loss reserve analyses, the Casualty Actuarial staff reviews all rate filings of the Illinois FAIR Plan, the Illinois Automobile Insurance Plan and the Illinois Mine Subsidence Insurance Fund. Staff evaluate all dividend notifications, review tabular and non-tabular discounting, and monitor carried asbestos and environmental reserve amounts. In 2001, this Section spent a considerable amount of time on special projects, such as:

- Research and review of terrorism issues that resulted from the September 11th tragedy.
- Preparation and distribution of the *2001 Medical Malpractice Closed Claims Study*, a statistical analysis of medical malpractice closed claims.

- Participation on the Casualty Actuarial Society's Committee on Professionalism Education and Committee on Reserves.
- Research on the issues related to the use of credit scores in underwriting and rating.

Casualty Actuarial Reviews

Domestic Actuarial Opinions	180
Foreign Actuarial Opinions	806
Financial Examinations	22
First Level Loss Reserve Analyses—domestic companies	131
Tabular Discounting—domestic companies	4
Salvage and Subrogation Amounts—domestic companies	18
Asbestos and Environmental Reserve Amounts—domestic companies	17

On the life insurance side, the **Life Actuarial Section** reviews actuarial opinions dealing with reserve adequacy in total and for specific products, and on a sample basis, actuarial memorandums that document the work supporting the actuarial opinion. This past year, much more emphasis was placed on reviewing compliance with newly adopted risk-based capital requirements for health maintenance organizations and life insurers with HMO authority.

The Section developed a new computer-based tool to identify insurer investments that contain more risk than is implied by the investment's credit rating. The new tool coupled with the development of new reports aimed at identifying insurer investments in bond sectors that have or are expected to experience an increase in credit downgrades or defaults has increased the Division's ability to monitor solvency.

A new assignment for the Section during the past year was involvement in the Department's examination of race based pricing and underwriting by life insurers. The Section conducted a survey of the domestic life insurance industry, conducted a targeted examination of one domestic life insurer and laid the foundation for targeted examinations of another two domestic life insurers.

During the past year, the life insurance industry has increased the number and variety of guarantees provided in variable products. Those guarantees tend to be quite complex and may be easily misunderstood by consumers. The Life Actuarial Section assisted in the development of disclosure requirements for products with these guarantees.

Life Actuarial Reviews—Actuarial Opinions

Valuation (Reserve) Law Compliance	131
Mortality Assumption Specific (X factors)	16
Equity Indexed Annuity	5
Risk Based Capital Interest Rate Risk	2
Small Employee Group Health	56

Actuarial Memorandums

General	3
Mortality Assumption Specific	2
Narrative Reports (annual and quarterly)	130
Actuarial Balance Sheets and Tax Levies for Public Pension Plans	578
Cost Estimates for Benefit Transfers under the Police Protability Legislation	21
Medicare Supplement, Long Term Care and Credit Life Rate Filings	approximately 485
A&H Claim Reserve Adequacy Analysis/Expanded Financial Monitoring	46
Risk-Based Capital Formula Calculations	43

Financial Examination

Illinois law requires the Department to examine the financial condition of insurance companies licensed to do business in Illinois, not less than once every five years. On-site financial examinations determine a company's financial solvency, compliance with Illinois laws and regulations, and reliability of financial statements filed with the Department, and develop the information needed for timely, appropriate regulatory action.

During 2001, the Financial Examination Section organized and presented various educational seminars which provided up to 32 hours of continuing education credits for the financial examination staff. In April and October 2001, the Department hosted seminars and invited other Midwest state insurance departments to participate. Those seminars included programs on regulatory modernization, anti-fraud training, reinsurance contracts, monitoring A&H claim liabilities, changes in insurance company tax laws, NAIC Invested Asset Working Group, deferred tax assets and liabilities, rate workshop, federal reserve risk matrices, and examination work paper best practices.

The paramount emphasis of the seminars was to develop a risk assessment approach to planning and conducting exams. We also regularly participate and take a leadership role in planning and attending the Society of Financial Examiners Career Development Seminar, as well as seminars hosted by the Illinois CPA Society. The continuing education credits are necessary for our financial examiners to maintain CPA, CFE, and AFE professional designations. The entire financial examination staff participated in a two-day NAIC Fraud Training program designed to educate examiners on financial fraud schemes, management fraud schemes, and examiner responsibilities during a financial examination. In a continuing information exchange with international insurance regulators, staff members also participated in a two-day discussion of examination procedures, processes, and programs with insurance regulators from India.

Due to staff shortages and increasing workloads, the Department sought outside support services to temporarily assist in the financial examination of Illinois domestic companies whose books, records and operations are located outside the State of Illinois. The Financial Examination Section has been aggressively recruiting candidates from Illinois colleges and universities to fill vacancies.

The Department began targeted examinations and reviews of issues surrounding unpaid death claims on individuals who purchased multiple industrial and monthly debit ordinary insurance policies. The information obtained from those examinations and reviews was considered in drafting language for a proposed regulation on claim processing standards and methodology.

We have revised the examination inquiry forms circulated to the P&C Financial Analysis and Casualty Actuarial Sections prior to commencement of a financial examination, and we had added an examination inquiry sheet to obtain additional information concerning a company under examination from the Market Conduct Section.

The Casualty Actuarial Section has participated in or provided guidance on our review of the actuarial opinion and in the determination of the examination loss reserve amount on most financial examinations. Those procedures improve the quality of the loss review and comply with the NAIC accreditation review guidelines concerning actuarial participation on financial examinations.

The NAIC continues to revise its Financial Examiners Handbook, in particular, the Examination Planning and Specific Risk Analysis (SRA) procedures. The Examination Section is in the process of revising work paper formats and procedures to remain in compliance with handbook changes.

Completed Financial Examinations

Property & Casualty		Life, Accident & Health	
Comprehensive	65	Comprehensive	30
Compliance/Target	<u>8</u>	Compliance/Target	4
	73	Actuarial Examination	20
		Actuarial Valuation	<u>6</u>
			60

Corporate Regulation

The Corporate Regulation Section is responsible for the incorporation, formation, licensing and registration of insurance entities and approval of other corporate transactions. In 2001, 761 life, accident and health and 1,144 property and casualty insurance companies were licensed in Illinois. Other licensed entities include:

- 462 purchasing groups (organized to purchase commercial liability insurance for their members);
- 50 foreign registered risk retention groups (insurance companies organized to write only commercial liability insurance on behalf of their owner-members);
- 41 reinsurance intermediaries;
- 30 service companies for group workers compensation pools;
- 44 self-insured auto fleets; and
- 102 companies registered under the Service Contract Act.

As of December 31, 2001, 486 resident surplus lines producers were licensed. Those individuals may, under limited circumstances, negotiate insurance contracts with unauthorized insurers not protected by the Illinois Insurance Guaranty Fund. Pursuant to statutory authority, the Director declared 113 unauthorized insurers ineligible to use resident surplus lines producers during the year.

Although Illinois law prohibits individuals or organizations from sharing risks without authorization to transact the business of insurance, two types of risk bearing entities are permitted by statute. At the end of 2001, the following were operating in Illinois: 9 religious and charitable risk pooling trusts, and 22 group workers compensation pools.

Licensed Property and Casualty Insurance Companies

	Domestic	Foreign	Alien	Total
Stock	169	709	7	885
Stock Captive				
Pure	3			3
Association	0			0
Industrial Insured	1			1
Stock Risk Retention Group	1			1
Stock Surplus Line	5			5
Mutual	17	76		93
Mutual Risk Retention Group	1			1
Reciprocal	4	18		22
INEX Insurance Exchange	1			1
Syndicates	1			1
Limited Syndicates	1			1
Lloyd's	0		1	1
Farm Mutuals	108			108
Accredited Reinsurers	<u>0</u>	<u>12</u>	<u>9</u>	<u>23</u>
Total	<u>312</u>	<u>815</u>	<u>17</u>	<u>1144</u>

Licensed Life, Accident and Health Insurance Companies

	Domestic	Foreign	Alien	Total
Stock Legal Reserve Life	77	503	6	586
Mutual Legal Reserve Life	6	40	0	46
Assessment Legal Reserve Life	2	0	0	2
Mutual Benefit Association	0	0	0	0
Burial Societies	2	0	0	2
Fraternal Benefit Societies	18	57	1	76
Voluntary Health Service Plans	9	0	0	9
Vision Service Plan	0	0	0	0
Dental Service Plan	1	0	0	1
Health Maintenance Organizations*	9	14	0	23
Limited Health Service Organizations	8	1	0	9
Accredited Reinsurer	0	4	1	5
Mutual Holding Company	<u>2</u>	<u>0</u>	<u>0</u>	<u>2</u>
Total	<u>134</u>	<u>619</u>	<u>8</u>	<u>761</u>

*Includes 1 general not-for-profit corporation, 21 for-profit corporations, and 1 voluntary health service plan corporation. Nine (9) legal reserve life companies also offer an HMO plan as a line of business; however, no company is counted more than once in the above classifications.

Pension Fund Regulation

The Pension Division regulates the suburban and downstate police and firefighter pension systems and collects vital information from those funds as well as from the large state, Cook County and Chicago pension systems, including the Illinois Municipal Retirement System. As in the previous year, 2001 saw an increase in the number of public pension funds, members, trustees, assets and beneficiaries, and expansion in member benefits, compliance audits, electronic filings, advisory and statistical services, and communications with the various pension funds.

A major responsibility of the Pension Division is to conduct on site and automated compliance audits. The 603 police and firefighter pension funds range from very small (1 or 2 participants) to very large (500 participants plus). In 2001, the Pension Division compliance section conducted 46 audits with over 182 findings. The Division is currently developing a word link audit process, which will increase our capability to perform more audits.

The Division also performs an actuarial study and calculates tax levies for the police and firefighter pension funds. This information is sent to all funds for use with their local municipalities. Historical tax levy calculations are supplied upon request to local municipalities, as well as to the Legislature and Pension Laws Commission. In 2001, the Division performed 13 complicated calculations for police portability and supplied 25 calculations to potential new funds to assist municipalities with real cost data for their future employee pension fund.

All 618 public pension funds electronically file their annual statements with the Department of Insurance. This project is currently being updated with a new database and interface applications to better serve the public pension funds.

During the year, Division staff presented 14 workshops and seminars to the downstate police and firefighter pension funds, members, trustees and officers, and held 24 meetings with various pension fund organizations and the large pension funds in an effort to improve operations for all public pension funds in the state. The Division responded to 5,213 telephone inquiries and 900 written inquiries from police and firefighter pension funds, investment fund managers, professional pension organizations, and members of the Illinois General Assembly, and made over 35 pension calculations for the smaller funds for retiring members.

Pension Funds

Downstate Police Funds	332	
Downstate Firefighter Funds	<u>271</u>	
	603	Assets of \$ 6.5 billion
Large funds	<u>15</u>	Assets of \$101.5 billion
Total funds	618	\$108.0 billion
Fund Trustees	3,777	
Fund Participants	604,488	
Total Benefits Paid	\$5.6 billion to 296,733 beneficiaries	

Legal Division

In addition to providing routine in-house counsel services, members of the Legal Division have been active participants on the national level, each year becoming more involved in NAIC working groups and federal legislative initiatives.

This past year the International Commission on Holocaust Era Insurance Claims, Gramm-Leach-Bliley confidentiality issues, securitization model laws, state bank insurance sales, federal proposals for optional federal charter and insurance regulatory schemes and information sharing among regulatory and law enforcement officials were all important projects to which legal staff contributed expertise. While not diminishing their importance, these issues were overshadowed by the occurrences of September 11th.

Subsequent to that date, Legal Division staff evaluated proposals for federal terrorism reinsurance back-stop; worked to develop mechanisms for providing catastrophic terrorism coverage; assisted with the development of terrorism loss exclusions for commercial insurance in conjunction with the NAIC and state regulators; drafted a company bulletin regarding insurance companies' freezing of terrorist assets; and worked with the U.S. Treasury Department to develop regulations applying the USA Patriot Act to the insurance industry.

Premium tax litigation continues on two fronts. *Milwaukee Safeguard v. Selcke* has been remanded from the Illinois Supreme Court to the trial court to determine how much of the protested tax money was actually paid by the insurers and is thus potentially recoverable by them and how much of the protest fund should be transferred to the General Revenue Fund. *Nationwide General Insurance Company v. Shapo* involves tax payments by approximately 200 insurance companies not made under protest. The cases were consolidated and dismissed by the trial court. Appellate arguments are scheduled for February 2002.

Over 30 administrative review actions filed by the Illinois Health Maintenance Organization Guaranty Association were consolidated with administrative review actions filed by various hospitals for claims arising out of the MedCare HMO, Inc. insolvency. The Guaranty Association challenged the Director's Order requiring it to pay claims and hearing costs while the hospitals sought a review of the Director's denial of their request for interest on the claims the Guaranty Association was ordered to pay. Most of these actions were dismissed by the trial court and appeals were taken to the First District Appellate Court where they are now pending.

The Legal Division has also assisted in establishing and maintaining systems needed for the management of the Group Workers' Compensation Pool Insolvency Fund including the distribution of benefits due and the issuance and collection of assessments. To date, 32 hearings have been requested to challenge assessments made as a result of the insolvency of four group workers' compensation pools.

Legal Activities

Administrative hearings scheduled	44
Freedom of Information requests processed	355
Opinions issued	76
Legislation reviewed	568
Regulatory files/miscellaneous matters reviewed	293
Rules adopted	12
Subpoenas processed	25
Litigation files opened	26